

Wine Industry Insights

Key Emerging Issues – November 2021



Bulk Wine Red V White

National

- The two paced bulk wine market for South Eastern commercial wines continues to see downward pressure on red wine prices (at or below \$0.80 per litre), but steady to improving white wine prices due to market shortages (Sauvignon Blanc \$1.50 per litre, but recently sold out of 21' vintage).
- Commercial bulk red wine already reflecting an oversupply in the market due to the China export market closing and Australian producers have not had a major uptake in northern hemisphere markets as the 'big' dry red style does not suit consumer tastes.

International

USA

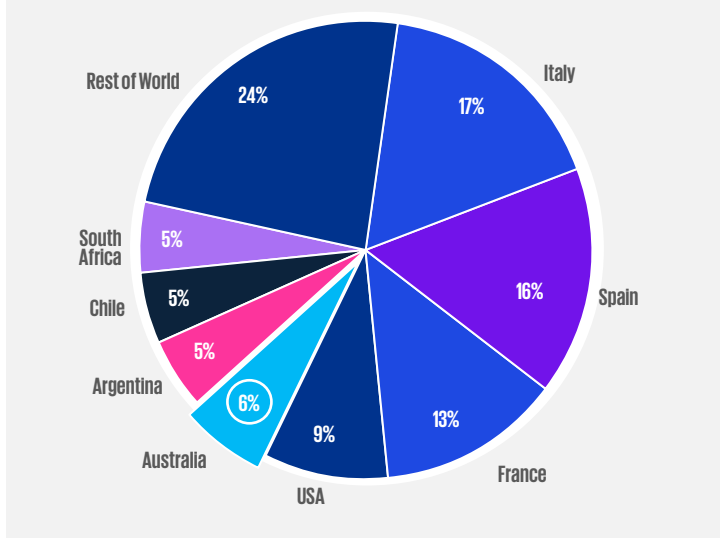
Bulk wine prices have remained stable and there may be upward pressure on pricing due to below average yields in 2019, 2020 and 2021 due to the ongoing drought and the severe Californian bushfires.

Europe

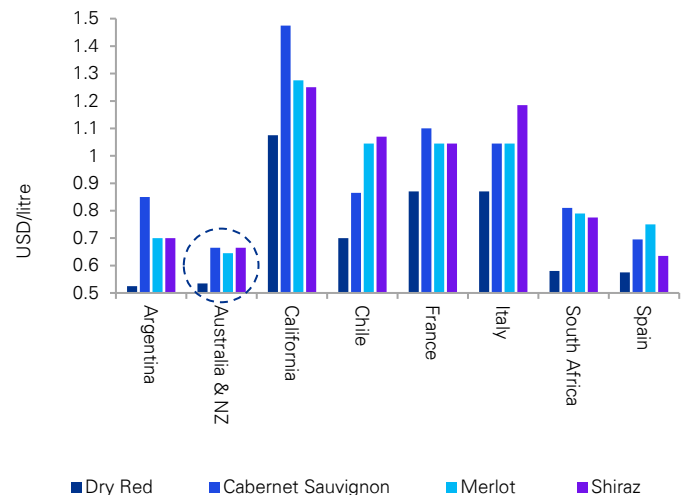
Italy, France and Spain on average account for around 50% of total global wine production and have a significant influence on global supply. The '21 vintage was down on average in these key markets, particularly France (40% down), meaning bulk wine prices are stable and in some key varietals increasing as demand is outstripping supply with producers having to allocate below pre-vintage agreed volumes. It is also worth noting:

- Pandemic has hit wine consumption in Europe harder than Australia, particularly Spain
- Large European '20 vintage meant that production was 25% higher than consumption which led to subsidies of circa €100m to Spanish producers to destroy grapes to avoid a wine glut
- Smaller '21 vintage has subsided the oversupply issue across Europe and stabilised pricing

Global Wine Production 2021



Red Varietals Export Pricing



Inventory Holdings Tanks are filling up

- The China tariffs have had an immediate and significant impact on the Australian wine industry driving a 17% decrease (or 238m litres based on '21 vintage production) in wine exports for the 12 months to 30 September 2021.
- Despite the below average 18/19/20 vintages, the cumulative impact of the China tariffs (95% of Australian wine exports to China were red wine) and record '21 vintage has raised the inventory to consumption ratio for red wine to approximately 1.9 which is above the long-term average of 1.58. This compares to 1.42 for '19 vintage and 1.54 for '20 vintage meaning the red bulk wine market is already in oversupply putting pressure on red grape prices, vineyard values (especially vineyards uncontracted and without a revenue stream or associated brand) and the availability of bulk wine tank storage heading into the '22 vintage.
- Inventory holdings for white wine are balanced, with the inventory to consumption ratio of 1.3 in line with the long-term average despite deficits in the '19 and '20 vintage whereby sales were greater than production.
- As Australian wine producers continue to attempt to diversify away from China, those producers still holding out hope that China bulk wine exports (where there are no tariffs imposed) might address the oversupply of red wine in the medium-term, will need to look elsewhere as the industry is reporting challenges with accessibility to freight and red wine bulk exports being cleared into China.

Vintage 2022 Labour of love

- Our industry contacts suggest the outlook for the Australian '22 vintage is for an average to above average harvest with initial flowering taking shape well. There were some concerns raised over recent hailstorms in key SA regions such as the Barossa, Adelaide Hills and Riverland, but overall only some growers were adversely affected and we view the impact on total Australian wine production will not be material.
- Some producers have been left shorthanded and underprepared for '22 vintage as pruning this year had to be delayed due to lack of seasonal workers and heading into '22 vintage the availability of seasonal workers remains a concern.
- Ideal growing conditions in '21 vintage masked the labour shortage as producers were able to stagger harvest to suit their labour supply.
- Should inclement weather events conspire to create a compressed '22 vintage whereby growers need 'act quick' in terms of harvest, the anticipated labour shortage will result in some growers harvesting out of specification (ie facing reduction in grape prices or rejection of grapes from the winery) or in the worst case, losing part or all of their crop.
- Growers we speak to have taken heed of the warning signs relating to '22 vintage planning we flagged in our August 2021 key emerging issues paper ([hyperlink here](#)), however, of concern, is the lack of commitment and in many cases response from wineries to growers seeking clarity regarding grape requirements and pricing for '22 vintage. This potentially puts growers without contracts in a perilous position for '22 vintage.

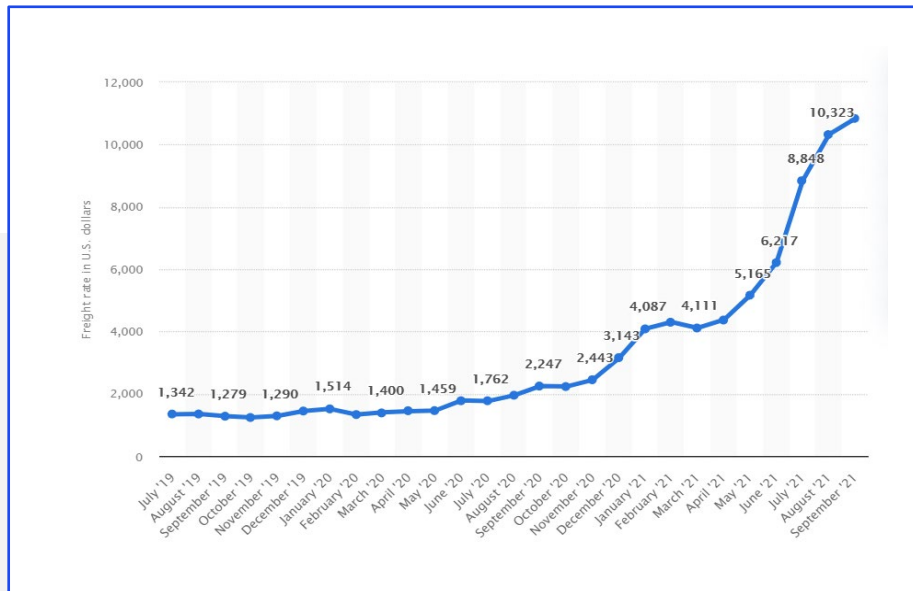


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Export and Supply Chain Not all smooth sailing

- There has been an increase in global demand for consumer goods coupled with inflationary pressure from the global economic recovery, which is causing significant stress across global supply chains as cargo demand surges.
- A shortage of shipping containers, vessels and challenging port operations is ensuring consistent delays and spiralling freight prices, causing further uncertainty for exporters as they attempt to diversify to other wine export markets or shift more volume through existing export markets.
- The heavy-weight nature of wine exports may lead to further costs as freight-forwarders consider forcing wine exports into 40" containers to maximize their revenue as the existing 20" containers cause ships to sail below their cellular capacity.
- Consideration of time delays, increased costs and potential ways to mitigate through trade agreements between countries will be increasingly important to ensure export opportunities are effectively executed.
- We recommend wine businesses engage early with all stakeholders involved in the supply chain, from customers/distributors to the freight-forwarders, given delays in the supply chain are expected to continue until at least Q3/2022.



Source: Global container freight index | Statista



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